

CIA/OSR /MEMO PA 751031 PRELIMINARY DOLLAR COST COMPARISONS
OF SOVIET AND US DEFENSE ACTIVITIES OCT 75
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CENTRAL INTELLIGENCE AGENCY

WASHINGTON, D.C. 20505

31 October 1975

CIA/OSR / MEMO PA 751031

MEMORANDUM FOR: Mr. Andrew W. Marshall
Director of Net Assessment, OSD
Department of Defense
Washington, D. C. 20301

SUBJECT : Preliminary Dollar Cost Comparisons
of Soviet and US Defense Activities

1. This memorandum transmits our latest dollar cost comparisons of Soviet and US defense activities together with two alternative comparisons requested in your memorandum entitled "Real Military Resource Comparisons of US and Soviet Defense Expenditures," dated 8 May 1975.

2. The new estimates of the dollar cost of Soviet defense programs reflect changes in the price base from 1973 to 1974 dollars, in the Intelligence Community estimates of Soviet forces and activities--including major revisions in uniformed and civilian manpower levels--and in the dollar prices applied to individual weapon systems and programs. They do not incorporate changes indicated by our survey of users, which is still in progress, or changes implied by new budgetary information on Soviet spending in rubles, which is still undergoing evaluation and analysis. At the present time we are unable to make a confident estimate of the magnitude or direction of the net effect of this new information and analysis on our dollar estimates.

3. As a result of these uncertainties, we have less confidence in the precision of our dollar cost estimates than we have had in the past and regard them as tentative. The usual caveats regarding their

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meaning and proper use, of course, still apply. Estimates incorporating the new information are currently underway and will be completed in the spring.

CIA Comparisons

4. The CIA comparisons are based on the same dollar costing concept and coverage of defense activities as in the past. At this point in time we still believe that this is a more appropriate concept for comparative purposes than those described in paragraphs 7 through 11. The dollar costs are estimates of what it would cost in the United States to develop, deploy, and man a force of the same size, structure, and technical characteristics as the Soviet force and to operate that force as the Soviets do. With regard to personnel costs, we use US pay and allowance rates but do not include most of the dependent benefits received by US servicemen. Estimated retirement pay reflects the statistical frequency of retirements in the USSR rather than in the US. No allowance is made for the US practice of providing medical services for retirees and their dependents.

5. The US Department of Defense data used in this comparison are from the January 1975 Five Year Defense Program. DoD spending for military aid and civil defense are excluded. Energy Research and Development Administration (and Atomic Energy Commission) expenditures related to nuclear weapons have been added to the DoD data. The dollar costs of Soviet programs are estimates of the costs of comparable Soviet activities. Both the US data and the estimates of Soviet costs have been converted into 1974 prices.

6. This year's preliminary estimate shows a continuation in 1975 of the diverging trends in the dollar costs of Soviet programs and US defense outlays. The estimated costs of Soviet programs in 1975 increased by about 5 percent while US expenditures

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declined by about 4 percent, both in constant 1974 dollars. As a result, the dollar costs of Soviet programs expressed as percent of US expenditures increased from 125 percent in 1974 to 135 percent in 1975. If the costs of pensions, which add little to current military capabilities, are removed from both sides, the USSR/US ratio increases to about 130 percent in 1974 and to about 145 percent in 1975.

Alternative Definitions

7. The two alternative comparisons that you requested are intended to show the effects of 1) adjusting the CIA concept to reflect US practices with regard to retirements and dependent allowances and 2) adjusting both the costs of Soviet programs and US expenditures to exclude "explicit non-defense activities."

Reflecting US Retirement and Dependent Practices

8. The basic CIA concept in costing Soviet retirement applies US retirement pay rates to an estimate of the number and average grade at retirement of Soviet pensioners. For this adjustment we have calculated dollar pension costs by comparing the size of US and Soviet career force levels in the appropriate time period and applying the relative coefficient

$$\frac{(\text{Soviet Career forces})}{\text{US career forces}} \sim \frac{1.3}{1}$$
 to US retirement expenditures

in each of the years 1962-75. Retiree medical benefits were derived by applying the above mentioned 1.3 to 1 manpower ratio to US retiree medical benefits spending in 1962 - 1975.

9. The basic CIA concept uses Soviet practices regarding dependent allowances. The adjustment to reflect US practices was made by applying US per man allowances

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for dependent housing, medical care and permanent change of station (PCS) travel to the estimated Soviet manpower levels. The US per man allowances are based on information provided by OSD/PA&E.


Reflecting "Explicit Non-defense Activities"

10. This comparison is intended to eliminate from both sides activities which do not contribute to military capability. The exclusions on the US side were provided by OSD/PA&E. They include such activities as: homeowner's assistance, Civil Air Patrol, rifle practice, naval petroleum reserve, civil defense, high school ROTC, Project Hire, GSA rentals and various other environmental, safety and EEO programs.

11. On the Soviet side, we have excluded the militarized security forces and an estimate of that portion of the costs of the construction troops which are devoted to civilian purposes. The costs of the militarized security forces were deducted under this alternative since many of their duties are performed in the US by the Coast Guard, state police, and various other federal and state entities not funded through the DoD budget.

12. You will note that this memorandum is classified Confidential because of the references to the new ruble information in paragraphs 2 and 3. If these references are omitted, this memorandum may be declassified.

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RICHARD LEHMAN
Director
Strategic Research

Attachment:
As stated.

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SUBJECT: Preliminary Dollar Cost Comparisons
of Soviet and US Defense Activities

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Preliminary Comparisons of Estimated Dollar Costs of Soviet Defense Programs
and US Defense Expenditures

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	Billion 1974 Dollars Projected 1975
<u>CIA Definitions</u>														
Total Defense Activities	79	79	79	81	84	88	91	93	97	98	98	100	102	107
Soviet Programs	89	90	87	85	103	109	111	110	99	90	88	85	82	79
US Expenditures														
Soviet as a percent of US	89%	88%	91%	95%	82%	81%	82%	85%	98%	109%	111%	118%	124%	135%
Excluding Pensions														
Adjusted Soviet Programs	78	78	78	79	82	86	90	91	95	96	96	98	99	105
Adjusted US Expenditures	88	88	85	82	100	106	108	106	95	86	83	80	77	73
Adjusted Soviet as a percent of adjusted US	89%	89%	92%	96%	82%	81%	83%	86%	100%	112%	116%	123%	129%	144%
<u>Alternative Definition: Dollar Costs of Soviet Programs Adjusted to Reflect US Retirement Practices and Dependant Benefits</u>														
Total Defense Activities	83	84	85	86	90	94	98	100	105	106	107	110	112	118
Adjusted Soviet Programs	89	90	87	85	103	109	111	110	99	90	88	85	82	79
US Expenditures														
Adjusted Soviet as a percent of US	93%	93%	98%	101%	87%	86%	88%	91%	106%	118%	122%	129%	137%	149%
<u>Alternative Definition: Soviet and US Totals Adjusted to Exclude "explicit non-defense activities"</u>														
Total Defense Activities	75	75	75	77	80	83	87	89	92	93	93	95	97	102
Adjusted Soviet Programs	89	90	87	85	103	109	111	110	99	90	87	85	82	78
Adjusted US Expenditures														
Adjusted Soviet as a percent of adjusted US	84%	83%	86%	91%	78%	76%	78%	81%	93%	103%	107%	112%	118%	131%